

Keppel Corp (KEP SP)

Share Price: SGD7.29

MCap (USD): 9.5B

Singapore

Target Price: SGD7.70 (+6%)

ADTV (USD): 33M

Oil & Gas

HOLD

 (Unchanged)

Support from 6% yield

- 3Q15 met expectations. Weaker O&M performance offset by stronger property contribution. We marginally cut EPS 1-2%.
- Infrastructure unlikely to be burdened by any more losses as EPC projects are complete.
- Maintain HOLD, but slightly trim SOTP TP to SGD7.70 from SGD7.80. Stock price is supported by 6% dividend yield.

What's New

3Q15 PATMI of SGD362.9m (-12.4% YoY, -8.5% QoQ) met expectations. 9M15 PATMI of SGD1,120m (-3.4% YoY) formed 76% of both our and consensus' FY15E. 3Q15 O&M operating margin of 12.2% was stable (2Q15: 13.0%, 3Q14: 12.2%), but revenue was down 11% QoQ. Property's strong sales momentum carried over, with about 1,330 home sold in 3Q15 compared to about 600 a year ago, largely from China. Losses in EPC projects seem to be nearly over as it handed over the Greater Manchester plants and will complete the Doha project by this year-end.

What's Our View

Keppel has secured SGD1.7b of orders YTD and its net orderbook now stands at SGD10b. The outlook for new rig orders remains weak as offshore drillers continue to battle with rig oversupply. Sete Brasil's financing issue remains unresolved even though Keppel does not see any need for provisions. We are concerned over potential write-downs if this continues. Deliveries for three jackups (2 for Grupo R, 1 for Parden Holdings) were pushed back 3-4 months, but Keppel was compensated with additional fees.

The company is optimistic on the property segment in China, citing loosening measures, which should allow it to benefit given its sizable exposure in China. We keep a cautious view as we think that demand is patchy.

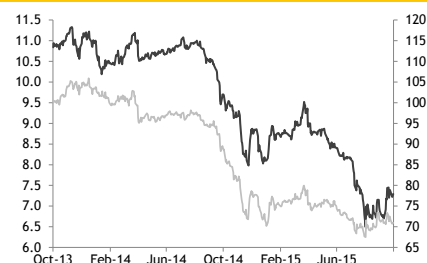
We have made marginal 1-2% cuts to our FY15-17E forecasts. SOTP TP trimmed to SGD7.70 from SGD7.80. Conglomerate structure should help it weather the downturn better than SMM. Stock also supported by sustainable 6% dividend yield. Maintain HOLD.

FYE Dec (SGD m)	FY13A	FY14A	FY15E	FY16E	FY17E
Revenue	12,380.4	13,283.0	10,891.0	10,881.9	12,186.6
EBITDA	2,376.7	2,638.6	1,862.0	1,783.4	1,888.6
Core net profit	1,411.8	1,874.8	1,469.4	1,381.4	1,455.5
Core FDEPS (cts)	77.4	102.4	80.2	75.4	79.5
Core FDEPS growth(%)	(26.8)	32.2	(21.6)	(6.0)	5.4
Net DPS (cts)	49.5	48.0	44.0	42.0	44.0
Core FD P/E (x)	9.4	7.1	9.1	9.7	9.2
P/BV (x)	1.4	1.3	1.2	1.1	1.1
Net dividend yield (%)	6.8	6.6	6.0	5.8	6.0
ROAE (%)	14.9	18.7	13.8	12.3	12.3
ROAA (%)	4.8	6.1	4.9	4.7	4.8
EV/EBITDA (x)	10.8	8.4	10.7	11.1	10.8
Net debt/equity (%)	15.8	15.9	49.2	44.5	47.5

Key Data

52w high/low (SGD)	9.70/6.49
3m avg turnover (USDm)	32.6
Free float (%)	77.8
Issued shares (m)	1,818
Market capitalization	SGD13.3B
Major shareholders:	
-Temasek Holdings	20.9%
-Aberdeen Asset Management	6.8%
-BlackRock Fund Advisors	6.0%

Share Price Performance



— Keppel Corp - (LHS, SGD) — Keppel Corp / Straits Times Index - (RHS, %)

	1 Mth	3 Mth	12 Mth
Absolute(%)	4.6	(10.4)	(24.8)
Relative to index (%)	(1.2)	(1.0)	(20.8)

Maybank vs Market

	Positive	Neutral	Negative
Market Recs	6	12	3
	Maybank Consensus		% +/-
Target Price (SGD)	7.70	8.00	(3.8)
'15 PATMI (SGDm)	1,469	1,438	2.2
'16 PATMI (SGDm)	1,381	1,371	0.8

Source: FactSet; Maybank

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Figure 1: Quarterly profit and loss summary

FYE Dec (SGD m)	3Q15	2Q15	3Q14	% chg QoQ	% chg YoY	Comment
Revenue	2,439.8	2,562.9	3,184.8	(4.8)	(23.4)	
Cost of sales	(1,535.3)	(1,920.1)	(2,238.7)	(20.0)	(31.4)	
Gross profit	904.4	642.8	946.1	40.7	(4.4)	
SG&A	(390.6)	(368.8)	(413.5)	5.9	(5.5)	
Other op inc/(exp)	(88.3)	204.8	100.2	(143.1)	(188.1)	3Q14 mainly due to gain from sale of Equity Plaza while 2Q15 was boosted by divestment gain of Keppel Merlimau Cogen to KIT
EBITDA	425.6	478.8	632.8	(11.1)	(32.7)	
Dep & amort.	(55.2)	(64.6)	(67.6)	(14.6)	(18.4)	
EBIT	370.4	414.2	565.2	(10.6)	(34.5)	
Non-op inc/(exp)	7.0	4.7	6.5	47.6	7.6	
Interest income	37.4	19.4	36.3	93.1	3.1	
Interest expense	(47.0)	(30.7)	(27.1)	53.3	73.4	
Associates/JV	101.5	90.2	61.6	12.5	64.7	
EBT	469.3	497.9	642.5	(5.7)	(27.0)	
Taxation	(97.0)	(88.0)	(105.1)	10.1	(7.8)	
Net income	372.3	409.9	537.4	(9.2)	(30.7)	
Minority interest	(9.4)	(13.1)	123.2	(28.1)	(107.7)	
PATMI	362.9	396.7	414.2	(8.5)	(12.4)	

Source: Company, Maybank KE

Figure 2: 9M profit and loss summary

FYE Dec (SGD m)	9M15	9M14	% chg YoY	MBKE FY15E	YTD as % of FY15E	Comment
Revenue	7,816.8	9,357.7	(16.5)	10,992.3	71	
Cost of sales	(5,258.2)	(6,441.6)	(18.4)	(7,767.7)	68	
Gross profit	2,558.7	2,916.2	(12.3)	3,224.6	79	
SG&A	(1,245.9)	(1,246.3)	(0.0)	(1,529.4)	81	
Other op inc/(exp)	55.5	(26.6)	(308.5)	178.7	31	
EBITDA	1,368.3	1,643.2	(16.7)	1,873.9	73	
Dep & amort.	(185.4)	(195.9)	(5.3)	(261.4)	71	
EBIT	1,182.9	1,447.3	(18.3)	1,612.5	73	
Non-op inc/(exp)	13.0	8.2	58.9	11.6	112	
Interest income	88.2	104.4	(15.5)	107.9	82	
Interest expenses	(114.3)	(81.6)	40.1	(188.8)	61	
Associates/JV	252.9	249.1	1.5	341.1	74	
EBT	1,422.7	1,727.4	(17.6)	1,884.3	75	
Taxation	(266.3)	(326.0)	(18.3)	(341.2)	78	
Net income	1,156.4	1,401.4	(17.5)	1,543.1	75	
Minority interest	(36.5)	(242.5)	(84.9)	(63.1)	58	
PATMI	1,119.8	1,158.9	(3.4)	1,480.0	76	

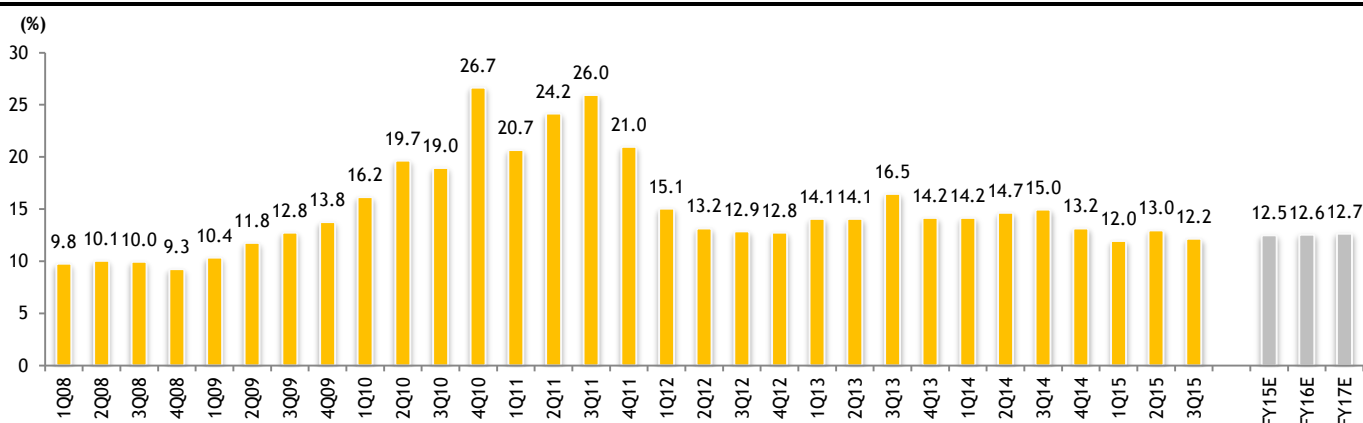
Source: Company, Maybank KE

Figure 3: Segmental breakdown

FYE Dec (SGD m)	3Q15	2Q15	3Q14	% chg QoQ	% chg YoY	1H15	1H14	% chg YoY	Comment
Revenue									
Offshore & marine	1,411	1,580	2,199	(11)	(36)	4,918	6,180	(20)	Lower volume of work and deferment of some rig projects.
Infrastructure	536	549	762	(2)	(30)	1,594	2,259	(29)	Lower revenue from EPC projects and absence of revenue from Keppel FMO which was disposed in 4Q14.
Property	487	431	219	13	122	1,245	896	39	Higher revenue from China and Vietnam partly offset by weaker revenue in Singapore
Investments	6	3	5	100	20	60	23	160	
Total	2,440	2,563	3,185	(5)	(23)	7,817	9,358	(16)	
Net profit									
Offshore & marine	166	173	252	(4)	(34)	542	753	(28)	
Infrastructure	34	103	38	(67)	(11)	160	105	52	
Property	144	117	92	23	57	333	221	51	
Investments	19	4	32	375	(41)	86	80	6	
Total	363	397	414	(9)	(12)	1,120	1,159	(3)	

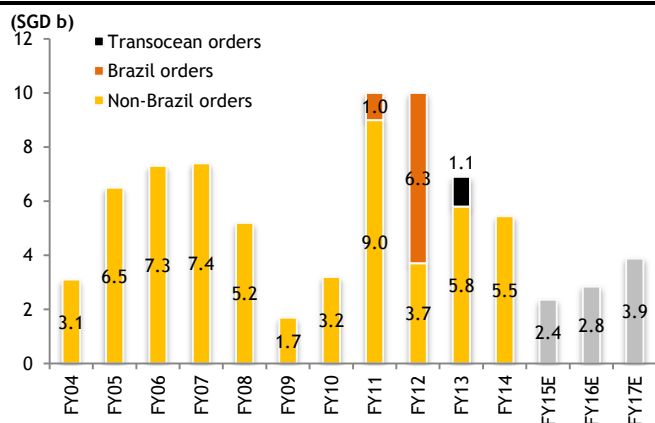
Source: Company, Maybank KE

Figure 4: O&M operating margin trend



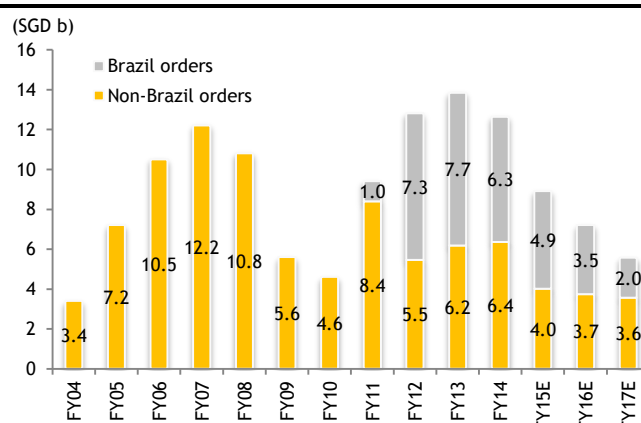
Source: Company, Maybank KE

Figure 5: Keppel O&M's historical and forecast order wins
Trim FY15/16/17 order wins from SGD2.6/2.8/4.0b to SGD2.4/2.8/3.9b



Source: Company, Maybank KE

Figure 6: Keppel O&M's order book



Source: Company, Maybank KE

Figure 7: Keppel - SOTP valuation

	Stake	Basis	Value (SGD m)	Kep's share (SGD m)	Per share (SGD)
Offshore & Marine					
DynaMac Holdings	27%	Mkt Value	185	50	0.03
Keppel Offshore & Marine	100%	0.73x FY16E EV/Backlog	7,351	7,351	4.03
Property					
Keppel Land	99%	Acquisition price of SGD4.38/sh	6,726	6,677	3.66
Reflections	70%	Maybank KE estimate	206	144	0.08
Keppel Bay plots 3, 6 & 4	varies	Maybank KE estimate	493	295	0.16
Tianjin eco-city project	45%	Maybank KE estimate	380	171	0.09
Other property assets	100%	est. Book Value	450	450	0.25
Infrastructure					
Keppel T&T	80%	Mkt Value	774	619	0.34
KIT	23%	Mkt Value	1,480	339	0.19
Other Infrastructure	100%	11x FY16E PER	1,132	1,132	0.62
Investments					
k1 Ventures	36%	Mkt Value	431	155	0.08
KrisEnergy	40%	Mkt Value	371	149	0.08
Others incl. net cash/(debt) - company level	100%		(1,885)	(1,885)	(1.03)
			Total value	15,648	8.57
			No. of shares (m)	1,825.3	1,825.3
			Value per share (SGD)	8.57	8.57
			Post 10% conglomerate discount (SGD)	7.72	

Source: Company, Maybank KE

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Metrics					
P/E (reported) (x)	7.1	7.1	9.0	9.6	9.1
Core P/E (x)	9.3	7.1	9.0	9.6	9.1
Core FD P/E (x)	9.4	7.1	9.1	9.7	9.2
P/BV (x)	1.4	1.3	1.2	1.1	1.1
P/NTA (x)	1.4	1.3	1.2	1.2	1.1
Net dividend yield (%)	6.8	6.6	6.0	5.8	6.0
FCF yield (%)	nm	nm	nm	9.9	2.5
EV/EBITDA (x)	10.8	8.4	10.7	11.1	10.8
EV/EBIT (x)	12.1	9.3	12.4	13.0	12.6

INCOME STATEMENT (SGD m)

Revenue	12,380.4	13,283.0	10,891.0	10,881.9	12,186.6
Gross profit	3,534.5	3,773.2	2,937.0	2,756.4	3,053.5
EBITDA	2,376.7	2,638.6	1,862.0	1,783.4	1,888.6
Depreciation	(242.3)	(265.1)	(261.4)	(262.4)	(262.4)
Amortisation	0.0	0.0	0.0	0.0	0.0
EBIT	2,134.4	2,373.4	1,600.6	1,521.0	1,626.2
Net interest income / (exp)	19.5	(0.9)	(89.3)	(158.9)	(166.4)
Associates & JV	625.9	504.2	340.5	388.1	385.5
Exceptionals	0.0	0.0	0.0	0.0	0.0
Other pretax income	14.0	2.0	20.0	21.8	24.4
Pretax profit	2,793.7	2,878.7	1,871.8	1,771.9	1,869.6
Income tax	(397.4)	(462.4)	(339.7)	(318.9)	(336.5)
Minorities	(550.6)	(541.5)	(62.6)	(71.6)	(77.6)
Discontinued operations	0.0	0.0	0.0	0.0	0.0
Reported net profit	1,845.8	1,874.8	1,469.4	1,381.4	1,455.5
Core net profit	1,411.8	1,874.8	1,469.4	1,381.4	1,455.5

BALANCE SHEET (SGD m)

Cash & Short Term Investments	5,564.7	5,736.0	2,387.1	3,053.4	2,868.2
Accounts receivable	2,953.0	3,140.1	4,383.3	4,081.5	4,403.9
Inventory	8,994.7	10,681.1	10,748.5	10,771.4	12,151.7
Property, Plant & Equip (net)	3,798.3	2,673.0	2,844.0	2,914.0	2,984.0
Intangible assets	86.2	101.7	104.1	104.1	104.1
Investment in Associates & JVs	5,482.2	4,988.4	5,342.3	5,730.4	6,115.8
Other assets	3,176.6	4,234.4	3,188.9	2,871.9	2,871.9
Total assets	30,055.6	31,554.8	28,998.2	29,526.6	31,499.6
ST interest bearing debt	516.7	1,795.6	1,864.7	1,961.6	2,077.0
Accounts payable	5,480.9	5,718.6	6,064.5	5,548.9	6,258.7
LT interest bearing debt	6,582.9	5,586.9	5,923.1	6,230.8	6,597.5
Other liabilities	3,786.0	3,726.0	2,861.0	2,859.0	2,883.0
Total Liabilities	16,366.8	16,827.2	16,713.2	16,600.1	17,816.5
Shareholders Equity	9,701.2	10,380.8	10,968.8	11,538.6	12,217.7
Minority Interest	3,987.7	4,346.9	1,316.3	1,387.9	1,465.4
Total shareholder equity	13,688.9	14,727.6	12,285.0	12,926.5	13,683.1
Total liabilities and equity	30,055.6	31,554.8	28,998.2	29,526.6	31,499.6

CASH FLOW (SGD m)

Pretax profit	2,793.7	2,878.7	1,871.8	1,771.9	1,869.6
Depreciation & amortisation	242.3	265.1	261.4	262.4	262.4
Adj net interest (income)/exp	(19.5)	0.9	89.3	158.9	166.4
Change in working capital	(733.6)	(1,762.2)	(948.9)	(236.7)	(914.7)
Cash taxes paid	(397.4)	(462.4)	(339.7)	(318.9)	(336.5)
Other operating cash flow	(701.0)	(569.9)	(993.2)	473.9	122.8
Cash flow from operations	624.7	21.8	(488.4)	1,633.7	667.1
Capex	(936.1)	(594.9)	(432.4)	(332.4)	(332.4)
Free cash flow	(311.4)	(573.1)	(920.8)	1,301.3	334.7
Dividends paid	(843.1)	(1,028.5)	(882.2)	(811.5)	(776.5)
Equity raised / (purchased)	39.7	34.3	0.8	0.0	0.0
Change in Debt	2,130.1	271.5	405.3	404.6	482.1
Other invest/financing cash flow	459.1	1,376.8	(1,952.0)	(228.1)	(225.5)
Effect of exch rate changes	34.6	42.2	0.0	0.0	0.0
Net cash flow	1,509.0	171.8	(3,348.9)	666.2	(185.2)

FYE 31 Dec	FY13A	FY14A	FY15E	FY16E	FY17E
Key Ratios					
Growth ratios (%)					
Revenue growth	(11.3)	7.3	(18.0)	(0.1)	12.0
EBITDA growth	(16.1)	11.0	(29.4)	(4.2)	5.9
EBIT growth	(18.6)	11.2	(32.6)	(5.0)	6.9
Pretax growth	(14.2)	3.0	(35.0)	(5.3)	5.5
Reported net profit growth	(17.5)	1.6	(21.6)	(6.0)	5.4
Core net profit growth	(26.2)	32.8	(21.6)	(6.0)	5.4
Profitability ratios (%)					
EBITDA margin	19.2	19.9	17.1	16.4	15.5
EBIT margin	17.2	17.9	14.7	14.0	13.3
Pretax profit margin	22.6	21.7	17.2	16.3	15.3
Payout ratio	48.4	46.5	54.3	55.1	54.8
DuPont analysis					
Net profit margin (%)	14.9	14.1	13.5	12.7	11.9
Revenue/Assets (x)	0.4	0.4	0.4	0.4	0.4
Assets/Equity (x)	3.1	3.0	2.6	2.6	2.6
ROAE (%)	14.9	18.7	13.8	12.3	12.3
ROAA (%)	4.8	6.1	4.9	4.7	4.8
Liquidity & Efficiency					
Cash conversion cycle	191.1	nm	nm	nm	nm
Days receivable outstanding	82.1	82.6	124.3	140.0	125.3
Days inventory outstanding	334.5	nm	nm	nm	nm
Days payables outstanding	225.5	212.0	266.7	257.3	232.7
Dividend cover (x)	2.1	2.2	1.8	1.8	1.8
Current ratio (x)	1.9	2.0	1.7	1.8	1.8
Leverage & Expense Analysis					
Asset/Liability (x)	1.8	1.9	1.7	1.8	1.8
Net debt/equity (%)	15.8	15.9	49.2	44.5	47.5
Net interest cover (x)	na	nm	17.9	9.6	9.8
Debt/EBITDA (x)	3.0	2.8	4.2	4.6	4.6
Capex/revenue (%)	7.6	4.5	4.0	3.1	2.7
Net debt/ (net cash)	1,534.9	1,646.5	5,400.7	5,139.1	5,806.3

Source: Company; Maybank

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